OCORIAN

A guide to switching your third-party AIFM provider

Changing your AIFM provider
isn't as burdensome as you think

Introduction

For the past decade, a low interest rate environment has led to a boom in institutional investors pouring capital into alternative assets and as such, the third-party Alternative Investment Fund Management (AIFM) / Management Company (ManCo) market has experienced significant transformation.

In our increasingly complex industry – with a growing regulatory burden – it makes sense for fund managers to allocate the management of their alternative investment funds to an expert third-party alternative investment fund management provider.

A boom in third-party AIFM companies

A combination of increased regulatory oversight following the global financial crisis and the UK's exit from the EU have been major contributing factors to significant industry growth in third-party management companies.

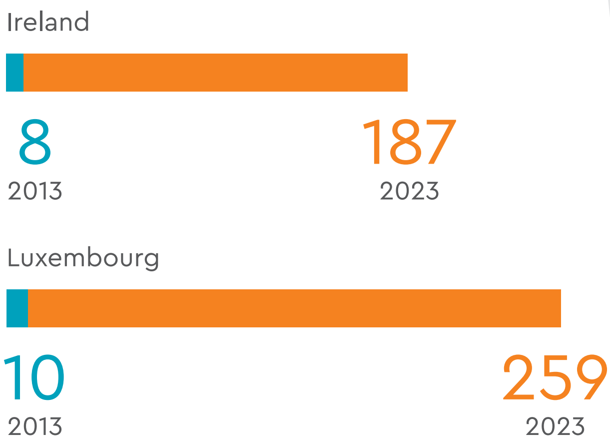
In 2013 there were just eight authorised fund management companies in Ireland, in contrast to 2023 where that number grew to 187[1]. At the end of 2022, there were 259[2] licenced AIFMs in Luxembourg, more than half of which offer third-party AIFM solutions, compared to 10 in 2013.

However, recent years have shown significant consolidation in the sector, leading to the creation of several larger ManCos in the third-party space to create what are colloquially known as 'mega management companies'.

While the move to third-party mega ManCos has helped the fund management industry comply with regulatory demands, some believe this has led to clients frequently feeling lost opposite a provider that has industrialised its offering and compromised its ability to offer a more personalised service.

A trend towards switching AIFMs?

We anticipate increased push back against those providers who have sought market share over service levels, which is likely to result in a move towards more specialised AIFM providers that put their focus on meeting their clients' demands.



This guide covers:

- Dissatisfied with your third-party AIFM provider? 5 red flags to look out for
- What should you do if you are worried about your third-party AIFM provider?
- When is it time to switch third-party provider?
- What should you look for in your next AIFM provider?
- The 10 key steps in the process of switching your AIFM provider
- Why are alternative asset managers choosing Ocorian's AIFM services?

1 Source: Central Bank of Ireland & Monterey
2 PwC & Monterey

This goes hand-in-hand with larger ManCos starting to rationalise their client basis, leading to an active off-boarding of smaller client mandates that are perceived as uneconomical or inefficient to support, as they require a highly tailored service.

This has created a real challenge for those fund initiators who seek a stable third-party AIFM provider that can provide the tailored and personalised service they are looking for.

What should you do?

Regardless of the situation, it is important that you regularly monitor and review your third-party service providers and question whether your external AIFM is helping or hindering your business.

If they are falling short of expectations and a sufficient intervention has not improved the situation, then it may be time to consider switching to a new AIFM provider.

Whether your motivation for switching is linked to unacceptable fee hikes or poor service, it is vital that any change follows an orderly and carefully considered process to minimise disruption to your clients.

Investment managers often fear that switching management company will be time-consuming and complex. The reality is that staying put (while gritting your teeth) with a provider that no longer meets your needs can be more disruptive than engaging a new AIFM.

This guide covers everything you need to consider before making the switch, the important steps along the way and how to ensure a smooth transition to your new AIFM provider.

Dissatisfied with your third-party AIFM provider? 5 red flags to look out for and what you should do about them

For all the benefits of using a third-party AIFM, there is a growing sense of disquiet among users that some providers are falling short.

Given the highly regulated environment in which fund managers operate, asset managers can ill afford to make mistakes when it comes to appointing service providers. If the service they receive from their third-party AIFM is falling behind expectations, they could be left vulnerable to regulatory implications.

It is important to watch out for signs that your third-party AIFM provider may be starting to miss the mark.

Five red flags to look out for from your third-party AIFM provider are:

- **A lack of attention to detail**
- **Missed regulatory filings**
- **Poor response times**
- **High turnover of staff**
- **A lack of personalised service**

What are common causes of dissatisfaction with third-party AIFM providers?

1. Staffing constraints

One of the main responsibilities of an AIFM is to provide substance and governance to their clients' businesses. It is critical they have the requisite resources and systems in place to ensure everything runs smoothly and within the limits of their regulatory environment.

Yet as competition between AIFMs has intensified, a fierce fight for the best staff and technology has begun.

Research by KPMG of third-party ManCos reveals staffing challenges, especially in internal control functions. And while the average risk management team/compliance function increased by 19% in 2021, the consultant identifies a migration of talent from third-party ManCos to internal, proprietary ManCos.

Combined with a high turnover of staff, this may leave some third-party providers with a skills and manpower deficit that will likely impact on their client service levels. This also means that the costs of operating an internal, proprietary ManCo are increasing.

2. A lack of expertise in specialised asset classes

With the rise in growth of 'Super ManCos' that service a broad range of clients across both UCITS and alternative investment funds (AIFs), fund initiators should assess whether their current third-party ManCo possesses the required expertise and skills amongst their staff to service their specific fund strategies.

Expertise in particular investment asset classes such as private equity, real estate, infrastructure, private debt and other bespoke offerings might not be available at a broader ManCo service provider, whose processes and controls may not reflect the underlying fund strategies.

Does your ManCo offer its services under both delegated portfolio management and advisory models? If the latter, ask how many portfolio managers they employ and whether they have expertise in your relevant asset classes.

3. Being a 'small fish in a big pond'

Some fund initiators have found themselves in a situation where they were receiving a personalised service in the past, but due to market consolidation within the industry, are now one client amongst dozens of others.

Combined with lack of resources and margin pressure, the AIFM's staff may not be able to allocate the appropriate time to servicing smaller, needier clients, resulting in poorer service levels or actual off-boarding by the AIFM.

4. Pressure on pricing

Inflationary costs in recent years and a higher cost of talent have put considerable pressure on third-party AIFM costs.

Competition in the third-party ManCo space has inevitably led to a squeeze on fees. This is compounded by stringent capital requirements imposed by the Alternative Investment Fund Management Directive, which requires a UCITS ManCo to have an initial capital of €125,000 plus 0.02%, of the value of the portfolios it manages in excess of €250 million, subject to a cap of €10 million. In addition, regulated AIFMs are required to hold a further 0.01% either in available cash or equivalent in third-party insurance.

This puts ManCos under further pressure – especially where businesses have consolidated and legacy fund manager contracts have been inherited by the new enterprise – to sever ties with their least profitable clients, or at the very least, substantially renegotiate fees.

5. A lack of technology solutions

Also required, is the need for considerable technology expenditure as ManCos endeavour to keep pace with changing regulatory structures, demands for responsible investment capability and the need to become more streamlined in their operations. Therefore, it is not a surprise that 64% of ManCos surveyed by KMPG see automation and digitisation as an opportunity.

This begs the question as to the service levels some funds managers receive where a ManCo's current technology capabilities fall short. It may be there are better equipped alternative providers available who possess the systems capable to facilitate many of the day-to-day tasks of an AIFM.

Thomas Fahl, Head of AIFM at Ocorian

"It is an unfortunate position for a fund initiator to have got to a point where they're ready to switch AIFM provider. These are long-term business relationships, built around the right balance of people, know-how and technology. When we onboard a new client we expect to see the fund project through from cradle to grave, from incorporation to liquidation, with re-up fund launches in the meantime."

What should you do if you are worried about your third-party AIFM provider?

Lack of attention to detail and accuracy, inefficient processes and non-responsiveness can have many negative effects, from missed regulatory filings to missed investment opportunities.

If there has been a recent merger affecting your provider, check for changes in your service personnel and assess whether any new staffing arrangements have impacted service levels.

With the significant increase in reporting demands and regulatory expectations, you need to ensure and assess whether your current third-party provider can continue to meet these demands, is keeping up with the changing regulatory environment and not putting your business at risk.

Yulia Martin,
Conducting Officer for Client & Portfolio Services at Ocorian

"We recognise that our clients face a lot of pressure: alternative asset markets can be very demanding. While certain transaction types may take several weeks between deal sourcing and execution, we need to be quick on our feet to ensure that due diligence and compliance processes are respected, without delaying the acquisition."

If lines of communication begin to break down and you are experiencing continuously poor response times on queries, it might be a sign that they are no longer able to commit the necessary time and resources to meet your requirements. Ask yourself, has servicing your business truly remained a priority of your third-party ManCo?

We highly recommend conducting an annual review with your ManCo, which can often strengthen the partnership with them.

When is it time to switch third-party provider?

The AIFM sector is undergoing considerable change and faces significant challenges, and as users of their services, it is important this is not to the detriment of your business.

If you recognise yourself in some of the situations mentioned above, then it may be time to consider alternatives and making the switch to a third-party AIFM more suited to your business.

What should you look for in your next AIFM provider?

Selecting the right AIFM is crucial for investment managers as they will assist with the full lifecycle of a fund. But with a wide range of AIFMs available, it can be difficult to decide which one to choose.

We've identified four key pillars you should consider when assessing AIFM providers:

Specialised knowledge of your asset class

Expertise is the real benefit as the regulations around certain asset classes can be quite complicated.

If you are launching a 'vanilla' equity fund, you have a wider choice of providers and have the option of going to any of the larger AIFMs which work with a variety of fund types and investment strategies.

But if you have more specialised investment strategies, such as real estate or private equity, you should consider an AIFM with subject matter expertise and experience in working with those asset classes. They can help you in setting up efficient transaction processes that comply with AIFMD regulations. They often have more nuanced knowledge of the specific regulations in place, and the intricacies that may need to be considered before an alternative investment fund launches.

There is a huge expectation from regulators around how alternative investment funds are managed and valued. Certain risk limits, investment restrictions and asset class niches need to be considered. If an AIFM is working with these strategies and fund types day in and day out, it is more likely to offer a higher level of expertise to potential investment managers.

Provision of other services

There is a huge range of services which firms can provide which may include:

- Pre-marketing and marketing
- Annex IV and other regulatory reporting
- Financial statement reporting
- Investment restriction monitoring
- Risk limit monitoring
- Delegate oversight

A one-stop-shop solution for fund initiators means that a single provider can offer multiple services such as AIFM services, fund administration, and depositary services.

Ocorian, for example, has an AIFM, an administrator, and depositary licence, making us a one-stop-shop solution for investment managers and other initiators of alternative investment funds.

This helps to keep all fund related work under one provider, create efficiencies and avoid conflict or miscommunication between third-party service providers.

Being a key priority for your AIFM

Third-party Super ManCos may have a vast number of clients, so at times, you may not be their top priority. This industrialised approach may be suitable for large scale clients and projects and more straight forward fund strategies.

Bespoke AIFMs with a more specialised service may offer a more personal touch, prioritise your needs, and provide speedy responses to queries.

You do not want to find that your AIFM hasn't got the appropriate time necessary to service your funds and meet your regulatory needs. This can result in poorer service or even being off-boarded by the AIFM.

Treating you as a valued partner

Choose an AIFM that you can build a strong relationship with over the long term.

Look for a client with a strong retention rate of their clients. For example, at Ocorian we have a 100% retention rate of our AIFM clients over the past 15 years.

We highly recommend that before selecting your new AIFM provider that you take the time to conduct a thorough due diligence exercise, including meeting them in their offices and get to know the team that will be working on your business. Appointing a third-party AIFM should be viewed as a long-term relationship, so ensuring that the AIFM has the required resources, experience and technology to fulfil their requirements will lead to the right outcomes for both.

Charlotte Cruickshank, Head of Solutions and Onboarding at Ocorian Fund Services

"The success of the long-term partnership really comes down to our clients' faith in our ability to deliver on the promises that we have made. This comes from collaboration with the client, from understanding their requirements, the needs of their portfolio and working within the parameters to deliver what we have promised."

The 10 key steps in the process of switching your AIFM provider

Switching AIFM provider can present challenges, however these can be overcome with the help of the right new provider. We explain the overall process below with some hints and tips to make the transition as smooth as possible.

1. The decision phase

Once you have decided to switch AIFM, the starting point is to formulate a high-level transition plan.

This includes carrying out a risk assessment questionnaire and a thorough overview of existing data. It is important to rectify poor quality data and fill in any gaps so that the incoming AIFM is fully abreast of your organisation's current state of play. Most importantly, it will allow for a more efficient and smooth transition to the new AIFM provider, ensuring there will be no impact on business continuity.

Next, you should clearly identify current gaps in service levels and decide the immediate and long-term expectations from the new service provider. This will help with the design of a comprehensive and effective request for proposal (RfP).

It is worth assessing the current AIFM market to identify possible new partners so that RfPs can be targeted to the most relevant organisations. This makes the procurement exercise more efficient and cost effective. Speaking to your existing service providers in the relevant jurisdictions can offer potentially valuable market intelligence and insight that goes beyond fees and track record.

Finally, draw up a roadmap for implementation that sets out key milestones, targets and objectives, and ensure there are personnel in place to oversee the transition at each stage. It is important to keep the roadmap flexible since there are many moving parts involved in an AIFM provider switch and you may need to adapt your transition plan accordingly.

2. Consult with legal counsel

Appointing a reliable law firm is paramount in ensuring a smooth switch to a new AIFM provider, and while you will likely have established relationships with existing legal counsel, it is necessary to ensure they are equipped to oversee the transition including specialist knowledge across all the relevant jurisdictions.

Engaging early with lawyers will uncover any potential sticking points and help keep the transition plan on track, especially where regulatory approval for a change in provider is required.

To help manage legal costs, try to incorporate a periodic review and refresh of the prospectus as well as the other service provider contracts into the AIFM transition.

3. AIF Board approval

The board of the relevant Alternative Investment Fund must ensure that managers comply with relevant governance, regulations and guidelines, and that investors are protected, so you will need to seek their approval before making a switch.

The board will want to review the new AIFM's qualifications, experience, and track record to ensure they are suitable, and they may also want to assess the impact of the change on the fund's operations, performance, and risk profile.

In addition, board approval may be required to ensure that the prospective AIFM meets any regulatory requirements or restrictions, disclosure requirements, or other obligations.

4. Secure shareholder approval

It is important to consult with your legal counsel who will advise on the specific requirements and procedures for seeking shareholder notification and approval when switching AIFM provider, since the process will depend on the specific details outlined in the fund's governing documents.

Once you understand the requirements, notify shareholders of the proposed change either through a meeting, proxy statement, or other communication methods outlined in the fund's governing documents.

Shareholders will need sufficient information about the new AIFM to make an informed decision about whether to approve the change. This information should include details about their experience, track record, investment strategies of the current funds under management, impact on the cost structure of the fund, and other relevant information.

Depending on the fund's governing documents and relevant laws, a shareholder vote may be required to approve the change in AIFM. This vote may be held at a shareholder meeting or through a proxy voting process.

5. Plan for data transfer methods with the incumbent AIFM

Effective data transfer is essential when switching AIFM. Without proper records the new provider will have an incomplete picture of the fund's current holdings, current investors and performance, which can lead to delays and complications.

In addition, the new manager may not be able to properly evaluate the risks associated with the fund's investments or identify potential issues that need to be addressed.

In cases where relationships with the existing AIFM have broken down, it is incumbent on the initiator of the fund to ensure the incoming AIFM has access to all the data they need, and you may need to secure additional support to ensure a smooth transfer.

6. Engage tax advisors

Tax advisors can help ensure that the switch to a new AIFM provider is completed efficiently and complies with all relevant laws and regulations. This can help investors and fund managers maximise the benefits of the switch and avoid potential tax pitfalls.

All AIFMs distributing and marketing products in the EU fall under the Alternative Investment Fund Manager Directive (AIFMD), but within each underlying country there are additional rules that differ across jurisdictions.

Tax advisors should have specialist knowledge across all the relevant geographies.

7. Assess the new AIFM

Carrying out thorough due diligence on any potential AIFM partner is critical.

Start by researching the AIFM's track record and investigate their experience and performance history across all the markets in which they operate.

Next review their regulatory compliance. It is crucial to verify that the AIFM authorised by the relevant regulatory authorities in the jurisdictions where they operate. Check their regulatory filings and confirm their adherence to regulatory guidelines and industry best practices.

Evaluate the AIFM's team and resources ideally with an onsite, in-person visit. Investigate the qualifications, experience, and expertise of the AIFM's key personnel, including the fund managers (if relevant), risk managers, and operational staff. Assess their ability to provide a high level of service and support to the fund and its investors.

Assess the AIFM's approach to risk management and their ability to manage risks associated with the asset classes they have under management.

Finally, fully understand the AIFM's fee structure and compare it to industry benchmarks to ensure it is competitive and aligned with the value they provide.

8. Communicate effectively with key stakeholders

Clear and timely communication is crucial to maintain trust among all relevant stakeholders through all stages of the switch.

Starting communication early and being clear open and honest about the reasons for the switch will allow stakeholders to ask questions and helps secure buy-in.

You need to be willing to address worries or questions that stakeholders may have, consider creating an FAQ document or hosting a Q&A session to address common concerns.

Throughout the transition process keep lines of communication open; regular updates help to build trust and confidence in the process.

Make sure stakeholders have a designated person or team they can contact with any questions or concerns. This point of contact should be responsive and knowledgeable about the transition process.

After the transition is complete, follow up with stakeholders to ensure they are satisfied with the new fund management company and address any outstanding issues.

9. Dot the i's and cross the t's

The next stage is to negotiate and sign the AIFM agreement, along with contracts and service level agreements (SLAs), subject to regulatory approval where required.

With support from your legal counsel, ensure that the terms of the contract and SLA are clear and that you understand them fully.

The contracts should include clearly defined performance expectations, and the incoming AIFM should be transparent about their service scope, contractual obligations (and the limits thereto), fees and other relevant information.

It is also important to set the risk management policies against which the fund manager should regularly report.

Finally, the contract should put in place the circumstances under which either party can terminate the contract or service level agreement.

In parallel, you will need to update your fund documentation including prospectus or private placement memorandum (PPM) and supplements.

10. Secure regulatory approval

Depending on the legal and regulatory requirements specific to your fund, the final and possibly most important stage before a switch is complete involves informing regulators, respectively securing their approval.

The specific requirements for notification can vary depending on the jurisdiction and the type of AIFM in question, so it is important to check with the relevant regulatory bodies to ensure compliance.

If the fund is regulated, every change to the governing document including the prospectus and PPM must be approved. For unregulated funds, the process is less onerous but in either case, you should seek assistance from your legal counsel.

There may be numerous notifications needed in different jurisdictions, all of which takes time and is dependent on the regulator. This is where the strength of your communication processes comes in to play so all stakeholders are informed of delays or complications.

Key tips when changing AIFM

- Communicate with stakeholders as early as possible to avoid complications and secure buy-in.
- Find advisers with specialist knowledge of switching AIFM.
- Conduct thorough due diligence on any prospective AIFM, including meeting the provider in person.
- Fully review and be sure you understand all the contracts and that service level agreements are fully aligned with your organisation's needs.
- Appreciate that many of the stages of a switch happen simultaneously and you will need requisite personnel and resources to keep the process moving.
- Remember that working with an AIFM provider is a partnership. It is important that both sides are confident the relationship will work over the long-term.

"I'd strongly encourage you to conduct thorough due diligence and to visit the AIFM's office, meet the team and build a strong relationship from the get-go."
Stephen Hickey,
Head of AIFM, Dublin

Why asset managers are choosing Ocorian's AIFM services

Ocorian is a specialist provider of AIFM services for private capital alternative investment managers.

Our AIFM teams are based in Ireland and Luxembourg and have extensive expertise in managing private equity, real estate, infrastructure, and private debt funds.

By having sector specialists amongst its team, the AIFM can ensure a smooth alignment on investment processes with the fund manager and offer expertise on complex risk and compliance matters. We provide the necessary substance, infrastructure, expertise and legal documentation in place in Luxembourg and Ireland to enable the fast and efficient set-up and launch of a new fund or migration from another provider. This enables you to focus on capital raising, asset management and generating returns.

AIFMs in Luxembourg & Ireland

2 operating models: Portfolio & delegation

100% client retention rate

Expertise across all private capital

Why Ocorian AIFM Solutions?

Responsive and dependable service

Our teams understand the importance of a responsive service and you can rely on us to deliver an accurate and dependable service.

Tailored service

We work as a seamless extension of your team and tailor our services to your specific needs.

Dedicated on-boarding team

Ocorian have a dedicated solutions and on-boarding team, that take on the heavy lifting and will take the pressure off you to meet the required timeframe.

100% retention rate

We have had a 100% retention rate of our AIFM clients over the past 15 years.

Expertise in alternatives

We have sector specialists on the team, in the areas of private equity, venture capital, real estate, infrastructure and private debt funds.

Global team

Our AIFMs in Luxembourg and Dublin are staffed by specialists in AIFMD, compliance, governance and accounting. We are experienced in handling the day-to-day operations of an AIF in compliance with AIFMD and local requirements. Our AIFM teams are supported by 300+ funds specialists globally who offer multi-jurisdictional and time zone support to fund managers in the US, Europe and Asia.

Breadth of service

Ocorian are also authorised to provide fund administration services and real asset depositary services. As a result, we provide a seamless one-stop-shop solution so you can focus on delivering value to your investors.

Ocorian AIFM services

Our AIFM services include:

Portfolio management – advisory model

We provide an in-house portfolio management function, with advice from an appointed investment advisor.

Portfolio management – delegation model

We provide oversight of delegated investment managers.

Risk management

We identify risks, establish risk limits to funds and ensure each risk is appropriately measured, monitored, managed and reported on regularly.

Fair valuation of assets

We ensure the asset-class specific fair valuation of assets by providing oversight to each AIF's tailored valuation process.

Fund service provider organisation and synchronisation

We liaise and co-ordinate with all the AIF's service providers such as the portfolio manager, administrator, depositary and external auditor to ensure that any issues are taken care of early, avoiding escalation measures.

Marketing notifications

We establish an operating model for marketing notifications to host regulators; distribute the AIF on a cross-jurisdictional basis; oversee marketing agents; and ensure local marketing roles are adhered to for non-EU jurisdictions.

AIFM and fund regulatory reporting

We provide all necessary AIFM and fund reporting to the relevant regulators.

Contact us

At Ocorian we are well placed to support fund managers in a review and potential refresh of your third-party arrangements.

For further information visit Ocorian's AIFM services or contact our fund services business development team to discuss your project.

Contact our
fund services team

About Ocorian Fund Services

Ongoing administration of real assets can be complex, particularly those involving multiple counterparties, service providers and debt arrangements.

Ocorian have over 30 years' experience in delivering operational excellence across our fund administration, AIFM, depositary, and accounting services to the world's largest financial institutions along with dynamic start-up fund managers and boutique houses.

Our team of over 300 fund specialists work across all major asset classes of alternative investment funds such as private equity, real estate, infrastructure, debt, and venture capital.

So whether you're launching a new fund or migrating an existing structure, we take care of the day-to-day business so you can concentrate on managing your fund and delivering value to your investors.

Our services

Fund services

- AIFM services
- Fund accounting
- Investor services
- Fund administration
- Depositary services
- Directorship & company secretaries
- SPV & holding companies

Expertise

- Private equity
- Real estate
- Venture capital
- Listed funds
- Private debt
- Islamic finance
- Infrastructure

Domiciles

Americas

- Bermuda
- BVI
- Cayman Islands
- US

APAC

- Hong Kong
- Singapore

EMEA

- Guernsey
- Ireland
- Isle of Man
- Jersey
- Luxembourg
- Mauritius
- Netherlands
- UK

Contact
our team

ocorian.com/fund-services

About Ocorian

We deliver tailored entity administration, fiduciary and compliance solutions to optimise your business operations.

Corporate Services

- Company incorporation & establishment
- Corporate administration
- Accounting, financial reporting & tax services
- Directors & substance services
- Corporate restructuring & liquidation
- Employee incentive services
- Share plan administration
- Employee benefit trust

Private Client

- Trusts, companies & foundations
- Family office
- Private capital
- Lifestyle & luxury assets
- Succession planning
- Business succession
- Philanthropy
- Investment management support

Capital Markets

Corporate trust & agency

- Loan administration
- Facility & security agent
- Note & bond trustee
- Paying agent
- Listing agent
- Escrow agent

SPV & corporate services

- SPV establishment & administration
- Accounting, tax & regulatory reporting
- Directors & nominee shareholders

Regulatory, Compliance & Legal

- Regulatory hosting
- Regulatory authorisation support
- Compliance consulting
- MLRO provision
- Regulatory reporting
- Compliance training
- Legal sevices

20+
Office locations

1,500+
Staff worldwide

15,000+
Structures under administration

8,000+
Clients

50+
Years of providing administration services

Contact us

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Private Client | Regulatory, Compliance & Legal